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REPORT ON FEASIBILITY OF DEBT CONVERSION IN MALI

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I. Introduction and Summary of Conclusions

This report, prepared by Finance for Development, Inc. ("FFD") for USAID/Mali (under contract number 688-0510-C-00-6801-01 dated October 18, 1995), analyzes the feasibility of debt conversion in Mali.¹

During the period from October to December 1995, FFD presented training workshops on debt conversion for USAID personnel, potential private sector investors, and for the Ministry of Finance and Commerce of Mali (*Ministère des Finances et du Commerce*). This report is based on discussions held in the course of the workshops, research and interviews conducted in Mali and contacts with Mali's creditors.

The feasibility of effecting debt conversion transactions in a particular country depends largely on three factors:

- o the availability and eligibility of debt for conversion purposes;
- o the interest of investors in funding projects through debt conversion; and,
- o the interest and ability of the debtor government to complete debt conversions.

Section II of this report provides an overview and introduces the mechanics of debt conversion. It also describes the benefits of debt conversion for Mali. Section III analyses the availability and eligibility of Mali's debt for conversion purposes. Section IV describes different debt conversion transaction structures and analyzes their feasibility in Mali. Section V discusses the interest and ability of the Government of the Republic of Mali ("GRM") in completing debt conversion transactions. Section VI discusses the interest of potential investors in undertaking debt conversion transactions in Mali.

FFD has concluded that debt conversions are feasible in Mali on an ad hoc basis. Several types of conversions may be possible in Mali, including debt-for-development, debt-for-equity, debt-for-assets, debt-for-offset and debt-for-policy reform transactions.

FFD's conclusions are based on the following factors:

- o Paris Club and other bilateral creditors are willing to consider proposals for the

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discounted sale of debt owed to them by Mali.

- o For-profit investors have already completed debt conversions in Mali. Several development organizations have expressed interest in undertaking a debt conversion transaction in Mali assuming that the transaction is well structured and provides reasonable incentives.
- o The GRM has confirmed its interest in funding debt conversions in priority sectors, with preference given to projects in agriculture/natural resources management, education and health. Limited funding is currently available in the national budget, and additional funding may be made available subject to investor demand. In addition, the GRM is also willing to consider conversions which do not require the payment of CFA francs ("CFAF"), such as debt-for-asset or debt-for-offset conversions.

II. Overview of the Debt Conversion Mechanism

A. A Typical Debt Conversion Transaction

A typical debt conversion transaction is a three-step financing transaction involving:

- (1) the purchase by a not-for-profit² or commercial investor of a debt (at a discount from face value) owed by the debtor government to a creditor;
- (2) the exchange of that debt by the holder with the debtor government for a payment of local currency, financial instruments payable in local currency or assets at a premium over the purchase price (though usually also at a discount from face value); and,
- (3) the use of those proceeds or assets to finance a development project or investment in the debtor country.

In order for the transaction to be attractive to a potential investor, the value ascribed by the investor to the proceeds of the conversion must exceed the price paid by the investor for the debt converted and the amount of local currency that the investor could have obtained through a regular foreign exchange transaction. However, the value of the proceeds can often be below the face value of the debt converted. The transaction would be attractive to

² Not-for-profit investors in debt conversions have typically included a wide range of organizations, including: cooperatives, foundations, non-governmental organizations (NGOs), private voluntary organizations (PVOs), research centers, United Nations agencies and universities.

Mali to the extent that it attracts foreign investment and allows for the reduction of external debt at a discount and/or in local currency or assets.

Generally, the process of completing a debt conversion in Mali involves the following steps:

- (1) preparation and submission of a debt conversion application by the investor to the Ministry of Finance and Commerce of Mali;
- (2) authorization of the transaction by the Ministry of Finance and Commerce;
- (3) purchase of the debt to be converted by the investor;
- (4) delivery of the debt being converted to the Ministry of Finance and Commerce for cancellation;
- (5) disbursement of the debt conversion proceeds to the investor and/or beneficiary of the conversion for implementation of the project financed.

B. Benefits of Debt Conversion for Mali

Debt conversion transactions allow Mali to reduce its external debt and debt servicing obligations while encouraging social and productive investment in Mali. In a debt conversion transaction, rather than make debt servicing payments outside of Mali, the GRM provides CFAF or other assets to a development organization or commercial investor for a project implemented in Mali.

Debt conversion provides the investor (for-profit or not-for-profit) with an opportunity to leverage its resources available for investment in Mali. Since an investor obtains local currency or assets at a favorable exchange rate, investors may use debt conversions to generate additional funding for projects for which they have only partial funding. A debt conversion may allow an investor to cover the shortfall between the funds it has and the funds it needs to implement a project. Often the project cannot be undertaken unless all the funding can be secured.

The financial gain or debt conversion premium provided to the investor through debt conversion can also represent a significant incentive for additional investment. In particular, debt conversion would increase the resources available to an investor in Mali, thereby allowing the investor to finance additional projects or to expand existing activities. Once an investor becomes involved in a project, it often commits additional funding in the future.

Investors may decide to invest in Mali rather than in another country if Mali is more attractive because it offers debt conversion as an incentive for investment. For investors raising funds abroad, the leveraging effect of debt conversion represents a powerful

marketing tool in convincing donors/lenders to support existing or new projects in Mali.

In addition to encouraging foreign investment in the social and productive sectors, debt conversions may make it easier for the GRM to meet structural adjustment goals. Debt conversions could allow the GRM to reduce public sector employment without actually reducing social spending. The GRM could use funds budgeted for social spending to finance debt conversions that benefit programs in the social sector. This essentially means that the GRM would be "subcontracting" the execution of some of its budgeted programs to development organizations, while simultaneously cancelling external debt.

C. The Elements of a Debt Conversion Transaction or Program

Debt conversion transactions can be negotiated either on an ad hoc basis without any set parameters prior to negotiation, or they can be structured pursuant to a debt conversion program or guidelines established under government regulations. A debt conversion program is a set of regulations and administrative procedures and mechanisms established within a debtor country to promote and process debt conversion transactions. Debt conversion regulations set specific terms, conditions and procedures to regulate debt conversion applications, authorizations, redemptions and disbursements. The regulations afford certainty and efficiency in what can often be time consuming transactions.

Some debt conversion programs are very detailed in the manner in which they regulate debt conversion. These programs will generally have detailed guidelines or regulations governing the procedures for preparing and submitting a debt conversion application, granting of an authorization, tendering of debt, and payment of conversion proceeds.³ By contrast, some countries have used general guidelines which provide only the minimum of requirements as to application requirements and terms. Generally, programs that have a limited purpose such as privatization, will have less detailed regulations or guidelines. The underlying rationale is that this will encourage investors to apply and thereby promote more investment.⁴

Debt conversion programs may be structured to encourage investment in a specific sector or for a specific purpose. It is possible, for instance, to restrict investment under a debt conversion program to a particular industry such as tourism or agriculture or for a specific activity such as the privatization of public enterprises, the conservation of natural resources or development work in general.

³ Mexico and Nigeria are examples of countries that have adopted detailed debt conversion programs.

⁴ South Africa and Zambia are examples of countries which have used general debt conversion guidelines.

Debt conversion program regulations generally fix the price at which the debtor government will retire debt as a percentage of face value of debt tendered. This price is often described as the redemption price or the redemption rate and is usually stated as a discount from face value.⁵ The percentage of discount will either be fixed in the debt conversion guidelines, determined through a debt conversion auction or negotiated on a case-by-case basis by the debtor government. There are also debtor countries that base the price at which they redeem debt on the price at which debt can be purchased from creditors. In other words, they set the premium that the investor will obtain at a fixed percentage above the price at which debt can be purchased. This system allows the debtor country to benefit from reductions in the price of its debt. On the other hand, the debtor country has to pay more when debt prices go up.

The form of the debtor government's payment for the debt is crucial to the viability of the debt conversion transaction. Most commonly, the debtor government issues local currency or financial instruments payable in local currency. In addition, there are "debt-for-equity", "debt-for-assets", "debt-for-offsets" and "debt-for-policy reform" transactions. These transaction structures are described in Section IV, below.

III. Mali's Debt Profile

A. External Debt

1. Summary

Mali is classified as a Severely Indebted Low-Income Country (SILIC)⁶ by the World Bank. As of December 31, 1994, Mali's aggregate amount of external official debt was approximately CFAF 1.5 trillion (\$3 billion)⁷, with about half owed to bilateral creditors and the other half to multilateral creditors. Mali owes almost no external commercial debt. Although Mali has benefitted from significant debt rescheduling and cancellation, Mali's debt burden continues to be a drain on government resources. In CFAF terms, Mali's external debt stock and servicing obligations doubled with the devaluation of the CFAF in January 1994. A list of Mali's external debt by creditor is provided in Annex B.

Through 1993, Mali had accumulated substantial principal and interest arrears. Beginning in

⁵ Consequently, a discount of 15% implies that the government will pay the investor the local currency equivalent of 85% of the face value of the debt.

⁶ SILIC countries have Total Debt/GNP ratios above 80% and/or Total Debt/Exports ratios above 220%.

⁷ The total amount outstanding in CFAF may change significantly depending on the valuation of debt owed to Russia.

1994, Mali came current on its debt servicing to all creditors with the exception of Russia. Since new external financing is being contracted at highly concessional terms, the International Monetary Fund (IMF) projects that Mali's debt service ratio will decline from 19.4% in 1995 to 16.4% by 1999.⁸

The GRM has arranged three restructuring agreements with its Paris Club creditors (France, Italy, the Netherlands, Switzerland⁹, the United Kingdom and the United States). In a fourth agreement to be negotiated in mid-1996, it is likely that Mali will be granted Naples Terms, although it is as of yet unclear precisely how such an agreement would affect Mali's outstanding debt stock. Three of Mali's Paris Club creditors are willing to consider sales of their claims on Mali at a discount for conversion purposes.

Mali also owes substantial amounts to bilateral creditors that are not members of the Paris Club, including large amounts to Russia and China. Some of the non-Paris Club bilateral debt may be available for purchase at a discount from face value and would, therefore, be suitable for debt conversion.

Mali also owes substantial amounts to multilateral creditors. Due to the policies of these creditors, it is currently not possible to obtain such debt at a discount for conversion purposes.

Since Mali's external debt can only be purchased from bilateral creditors, it is difficult to estimate purchase prices for Mali's debt. Even though Mali is classified as a SILIC country, Mali's debt is likely to be more expensive to purchase now that Mali is servicing its external debt. If there appears to be little likelihood of a creditor receiving payment, creditors are more likely to consider debt sales at a steep discount from face value. Each of Mali's bilateral creditors has its own internal criteria for evaluating debt sales, and some creditors insist on competitive bidding to establish a market price. Some creditors may be willing to sell debt at a lower price to one purchaser if they are able to "exit" from a particular country as a result. Other creditors may consider political factors in their decisions on debt sales. In general, debt owed to Paris Club creditors tends to be available at higher prices than debt

⁸ Debt service as a percentage of exports of goods and nonfactor services; excluding debt owed to Russia and the People's Republic of China. "Mali - Staff Report for the 1995 Article IV Consultation and Midterm Review Under the Third Annual Arrangement Under the Enhanced Structural Adjustment Facility", Appendix VIII, International Monetary Fund, September 12, 1995.

⁹ Switzerland is no longer a Paris Club creditor of Mali since it cancelled its claims on Mali in 1994.

purchased from other bilateral creditors or from commercial creditors.¹⁰

2. Major Categories and Status of External Debt

As of December 31, 1994, Mali's external debt was divided into the following major creditor categories:

(a) Multilateral Debt

As of December 31, 1994, Mali's aggregate amount of outstanding multilateral debt was approximately CFAF 754 billion. The World Bank is Mali's largest multilateral creditor. Although multilateral institutions have been unwilling to consider any reduction in multilateral claims on debtor countries, through its IDA Debt Reduction Facility, the World Bank has financed commercial debt buy-backs that included a debt-for-development conversion option.

(b) Paris Club Debt

The Paris Club is an ad hoc arrangement that facilitates restructuring of official debt between creditor and debtor countries.¹¹ Mali's current Paris Club creditors are France, Italy, the Netherlands, the United Kingdom and the United States. As of December 31, 1994, Mali's aggregate amount of outstanding Paris Club debt was approximately CFAF 178.5 billion. Mali has concluded three "Agreed Minutes" with its Paris Club creditors, as follows:

- (i) The first agreement, signed on October 27, 1988, cancelled and rescheduled arrears as of 6/30/88 and maturities (interest and principal), from 7/1/88 to 10/31/89. Each creditor country arrived at specific terms through bilateral negotiations with Mali; France cancelled 33.33% of eligible amounts and rescheduled the remainder, while the other creditors rescheduled the entire eligible amounts.

¹⁰ Paris Club creditors have quoted prices between 25-35% of face value for debt in the franc zone. In contrast, commercial debt in the franc zone has been purchased for 10-20% of face value.

¹¹ The Paris Club assures parity of treatment in the event the bilateral debt of a debtor country needs to be restructured. When a restructuring of a debtor country's bilateral debt becomes necessary, the Paris Club members meet with the debtor country to agree on a framework for the restructuring. The framework is set forth in an "Agreed Minute". Each creditor then negotiates a separate bilateral agreement with the debtor country, the terms of which conform to the Agreed Minute.

- (ii) The second agreement, signed on November 22, 1989, covered maturities from 11/1/89 to 12/31/91. France cancelled 33.33% of eligible amounts and rescheduled the remainder, while the other creditors rescheduled the entire eligible amounts.

- (iii) The third agreement, signed on October 29, 1992, covered arrears as of 9/30/92 and maturities from 10/1/92 to 8/30/95. France and the Netherlands cancelled 50% of eligible amounts and rescheduled the remainder, while the other creditors rescheduled the entire eligible amounts. The third agreement expired on August 31, 1995.

The GRM expects to sign a fourth Paris Club agreement, granting Mali Naples Terms¹², by August 1996. The GRM hopes that debt rescheduled under the first and second agreements will be included in the 1996 agreement. The 1996 Paris Club meeting is expected to take place following the GRM's next consultation with the IMF regarding Mali's Enhanced Structural Adjustment Facility (ESAF).¹³

Details of Mali's obligations to specific Paris Club creditors are as follows:

France: Following the CFA devaluation, France agreed to cancel CFAF 120.9 billion in debt owed to the Caisse Francaise du Developpement. CFAF 9.7 billion owed to COFACE, France's export credit agency, is still outstanding.

Italy: The GRM recently signed an agreement to cancel debt owed to

¹² Paris Club creditors agreed in December 1994 on new terms for the poorest and most indebted countries. The so-called Naples Terms allow for a reduction, on a case-by-case basis, of either 50% or 67% of the amount (or the equivalent net present value) of the debt service (interest and principal payments) falling due during the consolidation period. In addition, in exceptional cases, "stock treatment" can be applied, whereby the stock of non-concessional debt owed by the debtor would be cut by 50% to 67%. If granted, stock treatment is to follow a two- to three-year period under the debt service reduction terms. Full stock treatment has been granted to only a few debtor countries thus far, although an official of one Paris Club creditor expects several other countries to receive stock treatment in the coming year.

¹³ The Enhanced Structural Adjustment Facility (ESAF) is a concessionary facility of the IMF for members classified as "Low Income" countries as defined by the World Bank's International Development Agency (IDA). In 1995, Mali completed the third year of its three year ESAF.

Mediocredito. Approximately CFAF 800 million owed to SACE, Italy's export credit agency, remains outstanding.

The Netherlands: The Dutch export credit agency, NCM, is owed CFAF 3.2 billion by Mali for amounts rescheduled and consolidated under Mali's three Paris Club agreements.

United Kingdom: ECGD, the UK's export credit agency, holds title to CFAF 12.8 billion owed by Mali for the purchase of a presidential airplane.

United States: The United States cancelled debt owed by Mali in 1989. Approximately CFAF 20 million of USAID debt was excluded from this cancellation and is still outstanding.

(c) Non-Paris Club Bilateral Debt

As of December 31, 1994, Mali's aggregate amount of outstanding non-Paris Club debt was approximately CFAF 516 billion. Creditor countries include: Abu Dhabi Fund, Algeria, China, Egypt, Iraq, Ivory Coast, Japan, Kuwait Fund, Libya, Russia, and the Saudi Fund. Generally speaking, each of these creditors negotiates its own agreements with the GOM.

FFD has learned the following:

Abu Dhabi Fund: A plan for settling arrears was agreed in 1992, but no formal rescheduling of Mali's CFAF 16.7 billion obligation has occurred. Through 1996, Mali will be paying both current obligations and clearing accumulated arrears.

Algeria: Mali was not able to service its CFAF 13.6 billion obligation to Algeria beginning in 1988, and the countries signed a rescheduling agreement in 1990. Debt-for-livestock and debt-for-offset deals have been discussed by the two countries, but none have been completed thus far.

China: Until 1997, Mali will benefit from a debt moratorium on the CFAF 68.7 billion owed to the People Republic of China (PRC). This debt is interest free. Chinese debt has been converted for equity in COMATEX and SUKALA, two formerly state-owned enterprises that were recently privatized.

Egypt: Debt owed to Egypt was rescheduled in 1988. An agreement for cancellation of the entire debt of CFAF 10.7 billion has been

negotiated, with signature pending.

France:

Approximately CFAF 150.5 billion is owed by Mali to the French Treasury. This "dette monetaire," which is outside of the Paris Club, was incurred when Mali withdrew from the CFA franc zone and advances were made from the French Treasury to the Treasury of Mali. The "dette monetaire" was rescheduled on an exceptional basis in 1988, but has not been eligible for French cancellation.

Ivory Coast:

Mali owes the Ivory Coast approximately CFAF 3.9 billion resulting from a construction loan in 1978. The debt was rescheduled over a period of 15 years (5 year grace period, 3% interest).

Japan:

Two loans amounting to CFAF 25.1 billion are excluded from the Paris Club. The first loan was for rice importation during the 1983 drought, and the second loan was related to the 1989 structural adjustment program. Japan is not willing to consider restructuring these loans.

Kuwait Fund:

Mali is servicing CFAF 12 billion owed to the Kuwait Fund.

Russia:

Russia's claims on Mali total about 350 million rubles. Approximately two-thirds of this amount is related to military sales. Although negotiations have been underway since 1993, the valuation of Russia's claims in CFAF has been problematic. Russia has insisted on maintaining the ruble/CFAF rate prevailing when the loans were extended. Mali contends, however, that a compromise exchange rate, between the "old" ruble/post-devaluation CFAF and "new" ruble/pre-devaluation CFAF, must be agreed upon.¹⁴

Saudi Fund:

Mali is servicing CFAF 52.6 billion owed to the Saudi Fund.

¹⁴ Based on the ruble rate prevailing at the time the loans were booked, Mali owes Russia CFAF 296.7 billion, or about \$593 million. At the current ruble rate, the debts would be valued at CFAF 600 million (\$1.2 million) based on the pre-devaluation value of the CFAF, or CFAF 1.2 billion (\$2.4 million) based on the post-devaluation value of the CFAF.

3. Availability of Debt for Purchase

Initial contacts with both categories of Mali's bilateral creditors have indicated that portions of Mali's Paris Club and non-Paris Club debt may be available for purchase in connection with debt conversions.

(a) Paris Club Debt

Mali's third restructuring agreement with the Paris Club contains a "swap clause" which allows the conversion of 10% or \$10 million of debt owed to each bilateral Paris Club creditor. It is expected that Mali's fourth restructuring agreement with the Paris Club will also contain a swap clause. The GRM has indicated that it would prefer to wait until after its next meeting with the Paris Club before considering conversions of Paris Club debt. Until the GRM is able to assess the impact of a new restructuring agreement on debt owed to the Paris Club creditors, it will be difficult for the GRM to decide on appropriate terms for conversion of Paris Club debt.

Three of Mali's five Paris Club creditors are willing to consider sales of their exposure to Mali at a discount:

France: France is willing to consider sales of debt owed by Mali for conversion purposes. First, however, Mali would need to request a formal agreement with France for conversion of this debt.

The Netherlands: The Netherlands is willing to consider sales of its Mali debt at a discount, depending on the financial terms of the conversion. Although the Netherlands recently contributed CFAF 3 billion to help Mali pay off internal debt, decisions regarding debt sales are made by NCM on a commercial basis, subject to approval by the Ministry of Finance in the Netherlands.

United Kingdom: In 1995, ECGD agreed in principle to sell its claims on Mali at a discount to a commercial investor, subject to the investor agreeing on debt conversion terms with the GRM. To date, the investor has not been able to agree on terms with the GRM.

Due to domestic accounting and legal restrictions, Italy and the United States are currently unable to sell their sovereign claims on debtor countries at a discount.

(b) Non-Paris Club Bilateral Debt

Information regarding the availability and pricing of non-Paris Club bilateral debt is particularly difficult to obtain. Bilateral creditors are often unwilling to discuss debt sales without receiving a specific proposal from a potential purchaser. As a result of conversations with Mali's Division of Public Debt (*Direction Générale de la Dette Publique*) and preliminary discussions with representatives of several creditor governments, FFD believes that the following creditors may be willing to consider sales/cancellation of debt owed by Mali for conversion purposes:

- Algeria:** Mali is currently negotiating a debt-for-offset transaction with Algeria.
- China:** China has negotiated debt-for-equity transactions in Mali. In other African countries, China has sold debt for conversion purposes. In light of China's current moratorium on debt owed by Mali, there is no incentive at present for Mali to convert this debt for payment in cash.
- France:** Although to date France has not restructured the "dette monétaire" owed by Mali, in principle, it has no opposition to considering sales of this debt for conversion purposes.
- Ivory Coast:** Mali currently pays debt service of CFAF 60 million per year. Depending on terms, the Ivory Coast might be willing to consider sales of debt owed by Mali.
- Russia:** Mali is not currently servicing debt owed to Russia. The last negotiations between the countries took place in Bamako in January 1993. At that time, Russia and Mali agreed to consider debt-for-equity and debt-for-commodity swaps as a means of reducing outstanding debt. Since January 1993, negotiations have been suspended and it is unclear when negotiations will resume.

Despite the lack of formal negotiations, both sides appear to be interested in resolving the impasse. Mali would like to obtain a debt restructuring agreement with Russia (i.e., compromise exchange rate and IDA terms, including 25-year rescheduling). As a goodwill gesture, Mali has been paying the Russian Embassy's electricity, telephone and telex bills.

Russia has expressed general interest in restructuring debt owed by African countries, but Russia has refused to accept any

change in the ruble/CFAF rate. Russia has been open to the idea of debt conversion and has completed transactions in southern Africa.

4. Quantitative Analysis of Feasibility of Debt Conversion for Mali

In addition to the above survey of Mali's external debt, FFD undertook a quantitative analysis to determine if and under what general conditions conversion of external debts owed by Mali to selected Paris Club and non-Paris Club creditors might be in the interest of Mali.

(a) Methodology

In practice, debt conversion is almost always beneficial to the debtor government in terms of actual payments, due to the discount from face value inherent in the reimbursement price paid by the debtor government. This is not always the case, however, when the net present value ("NPV") of the payments streams is considered, as specific loan terms and maturity structures will determine the size and timing of actual payments. NPV analysis weights more heavily payments of principal and interest made in the near term, and it discounts payments to be made in the future. For this reason, it can be a better indicator of the actual costs to be incurred by the debtor government over time.

Therefore, FFD's general analytical approach was to first determine the actual payment stream, in the currency of the obligation, associated with the full servicing of each loan owed to a specific creditor. The NPV of the actual payment stream was also determined. The CFA equivalents of the actual payment and NPV totals were then aggregated for the creditor and compared to the actual and NPV payments associated with conversion of the debt under several different scenarios.

Two basic debt conversion options were considered: (i) full and immediate payment in local currency; and (ii) disbursement over two years, with payment made in bonds carrying an interest rate of 10%. Under each option, several different redemption rates (in percentage of face value of aggregated original loans) were considered. The purpose of varying the redemption rates was to determine very broadly and in the context of the assumptions described below an approximate break-even redemption rate at which debt conversion and full debt service yield roughly the same NPV. In other words, the multiple scenario analysis provides some indication as to the highest redemption rate that Mali could accommodate while still saving money (in NPV terms) as compared to full debt servicing.

It is important to note that NPV analysis is most useful for comparing a variety of investment or payment options. The purpose of such analysis applied to the external debt of Mali was to provide an indication of if and when debt conversion might be less expensive (in NPV terms) to Mali than full debt servicing. Given the many variables and assumptions included

in the analysis, FFD does not advise Mali to utilize the actual results of the NPV analysis for any budgetary purpose. Furthermore, this analysis is not meant to serve as a comprehensive statement of the costs and benefits of debt servicing and debt conversion to Mali. Other factors, such as the investment impact of debt conversion, should also be considered.

(b) Assumptions

Details of specific loans were provided to FFD by Mali's Division of Public Debt. The NPV analysis was based, as much as possible, on this information. FFD's analysis focused on debts owed to certain creditor countries indicated by the Director of Public Debt as being of particular interest to Mali. These creditors included: the Ivory Coast; COFACE (France); ECGD (the United Kingdom); NCM (The Netherlands); and the French Treasury "dette monetaire" (France). Non-military debt owed to Russia was also considered, although no quantitative analysis was undertaken.

The following analytical assumptions were made:

- i. For each obligation considered, the debt servicing option assumed that servicing would be comprised of equal semesterly principal payments until the end of the term, following any applicable grace period.
- ii. The interest rates for each loan were assumed to be annual nominal rates.
- iii. A discount rate of 12% was used for all NPV calculations.
- iv. The following exchange rates were used:
 - a. 1.00 U.S. Dollar ("USD") = 485 CFA francs ("CFAF");
 - b. 1.00 USD = 1.61 Dutch Guilder ("NLG");
 - c. 100 CFAF = 1 French Franc ("FF").
- v. All calculations were based on a t=0 initial date of January 1, 1996.
- vi. An initial redemption rate of 40% was considered in Scenarios A and B of the debt conversion option; if this rate did not approach the break-even point, Scenarios C and D were run with a different redemption rate either higher or lower than 40%.

(c) Results

The approximate break-even redemption rate for each creditor was determined as follows:

i.	Ivory Coast:	55%
ii.	COFACE:	75%
iii.	ECGD:	65%
iv.	NCM:	80%
v.	French Treasury:	35%

In other words, it is in Mali's interest to convert the debt owed to these creditors at any time that Mali can negotiate a redemption price with the investor that is less than the break-even redemption price for the particular creditor, as listed above. It thus appears that conversion of debts owed to all of these creditors (with the possible exception of the French Treasury) under realistic conversion scenarios could generate NPV benefits over straight debt servicing to Mali. As one might expect, debt conversion using two-year bonds is always less expensive in NPV terms than immediate cash payment (assuming the redemption rate remains constant).

B. Internal Debt

As part of its structural adjustment program, the GRM adopted a planned strategy for settling domestic payment arrears, which included payment over 3 years and rescheduling of "non-conventionelle" internal debt, and securitization of special categories of internal debt (eg. debt owed by public enterprises). FFD believes that Mali's internal debt is unlikely to be available for conversion purposes since the "non-conventionelle" debt will be mostly paid off by 1997 and the securitized debt is being held for investment purposes or has already been sharply discounted by commercial banks in Mali.

With the assistance of the World Bank, the GRM conducted an audit of its "non-conventionelle" internal debt, which is debt that was incurred outside of the budget process. Of the total amount outstanding of CFAF 61.54 billion (as of 12/31/93), CFAF 20 billion was paid in 1994. The remaining CFAF 41.54 billion has been discounted by 10%, 20% or 30% depending on the legitimacy of the individual claims. CFAF 28 billion is being paid off over 2 years - with about CFAF 10 billion paid in 1995 and CFAF 18 billion to be paid in 1996.

Law No. 94-030, dated July 20, 1994, authorized the GRM to securitize internal debt through the issuance of treasury securities, including bills ("*bons*") for maturities of 0 to 2 years and bonds ("*obligations*") for maturities of more than 2 years.¹⁵ Under the auspices of the law, 5 decrees have been issued authorizing securitization of a total amount of CFAF 39.86 billion, as follows.

- o 6.8 billion CFAF debt owed by 40 parastatal companies that have been privatized or liquidated. Terms: 10 year zero coupon bonds, 5% paid upon maturity;
- o 23.9 billion CFAF debt owed by ex-Banque du Developement du Mali due to Banque Centrale des Etats de l'Afrique de l'Ouest (BCEAO). Terms: 12 year maturity, 5% interest, guaranteed by BCEAO, full redeemability by the BCEAO at all times;
- o 2.54 billion CFAF compensation due victims of riots "casses". Terms: payable in 5 years, no interest;
- o 3.6 billion CFAF for "operation FASO". Terms: payable in 3 installments in 1997, 1998 and 1999, no interest;
- o 3.04 billion CFAF for loan to the Banque Internationale du Mali (ex-BIAO-Meridien).

According to commercial bankers interviewed by FFD, commercial banks in Mali are holding most of the treasury bonds for investment purposes or to meet reserve requirements at the Central Bank (*Banque Centrale des Etats de l'Afrique de l'Ouest*). The banks received them in exchange for debt owed to the banks by the GRM, purchased them at steep discounts (as much as 50-100%) from original holders, and received them to cover client overdrafts.

IV. Debt Conversion Transaction Structures

A. Debt-for-Cash or Financial Instruments

1. Definition

In a debt-for-cash conversion, the debtor government redeems the debt tendered for a cash payment, if possible at a discount from face value. In order to spread out the payments, the

¹⁵ **Securitization** has been introduced in several West African countries, such as Cameroon and the Ivory Coast, as a means of settling debt owed by the public sector to the private sector. This **internal debt** (owed by the government or by public enterprises) is transformed into government securities which are allocated to creditors. Typically, these treasury securities are negotiable and yield interest at maturity.

transaction can be completed in installments over several months. In a debt-for-financial instrument conversion, the debtor government exchanges the debt tendered for financial instruments, such as bonds. **Debt-for-development** conversions are debt-for-cash or financial instruments transactions undertaken to finance development projects in the debtor country. As discussed below, **debt-for-equity** conversions finance equity investments in the debtor country, and debt conversion proceeds may take the form of cash, financial instruments or shares in a company in the debtor country.

If the proceeds are in the form of financial instruments, the amount the investor will be willing to accept will depend on the marketability of the instruments and on their risk and yield. These factors will in turn depend on the specific terms of the instruments and the economic circumstances of the debtor country. Financial instruments are more attractive to investors if they are denominated in hard currency (albeit payable in local currency), if they are marketable, or if they have staggered maturities that meet the implementation schedules of the projects being implemented with the proceeds.

Financial instruments are also more attractive if the government's performance at maturity is secured or guaranteed by third parties, either expressly by a donor government or through the creation of a guarantee fund. Often guarantee funds of this type will be funded with non-interest bearing bonds (zero coupon bonds) issued by a creditworthy institution.

2. Feasibility of Debt-for-Cash or Financial Instruments in Mali

In both debt-for-cash and debt-for-financial instrument transactions, the major consideration for the debtor government is how to fund the payment that needs to be made to the investor, either in a lump sum or over time. Most debtor governments are subject to severe budgetary and monetary constraints, which make it difficult to find funding for debt conversions.

This is the case in Mali, where all GRM expenditures must be authorized in the national budget voted by the National Assembly each year. Even though all expenditures must be authorized in the budget, there can still be delays in payment at the level of the Treasury. Although the GRM prefers to pay debt conversion proceeds in installments over time, the GRM may be open to considering different payment mechanisms proposed by investors.

To assure the smooth completion of a debt-for-cash transaction, it may be possible to open an escrow account with a local commercial bank to receive debt conversion proceeds. The funds could be deposited by the GRM in a special debt conversion account in the name of the investor. The commercial bank would then be granted a "mandat" to disburse the funds under certain conditions (eg. delivery of debt to the GRM for cancellation). As a practical matter, it might be difficult to arrange for deposit of the debt conversion proceeds in an escrow account unless the Treasury released the funds in a timely manner.

As discussed in Section III above, a precedent exists for the issuance of Treasury bonds for payment of government obligations. The issuance of debt conversion bonds would require a decree of the Council of Ministers. In the event that the GRM issued bonds, local commercial banks have indicated that they would be prepared to discount them for immediate payment in CFA francs as long as the terms and yield of the bonds were acceptable.

3. Debt Conversion in the Context of the Creation of Local Currency Funds in Mali

The debt conversion mechanism can be used as a means of leveraging hard currency funds donated for the creation of local currency funds that provide long-term funding for development objectives. These funds can take the form of an endowment, a trust fund or a sinking fund.¹⁶

In the environmental sector in Mali, there is currently interest in considering how debt conversion could be used to help finance an environmental or desertification fund. On November 6-7, 1995, the International Union for the Conservation of Nature (IUCN), in cooperation with the Ministry of Rural Development and the Environment (*Ministère du Développement Rural et de l'Environnement*), presented a national workshop on debt and debt conversion. The workshop focused on alternative financing mechanisms in the context of the establishment of a national environmental fund. An ad-hoc committee has been set up to draft recommendations for the creation of an environmental fund.

In Mali, the legal protection for assets held in funds is limited.¹⁷ Most not-for-profit

¹⁶ An **endowment** is a gift or grant intended to provide long-term funding for an institution or a particular aspect of the institution's activities. The endowment is the property of the beneficiary, but the grantor may attach conditions as to its use or investment. Whereas in the context of an endowment, the beneficiary itself has control of the funds, in a **trust fund**, assets are managed by one person or group (trustees) for the benefit of another person or group (beneficiaries). Normally, endowments or trust funds are held in perpetuity, meaning that only the interest generated through the investment of fund assets is disbursed for project or operating expenses. In contrast, the entire principal of a **sinking fund** is drawn down over a specified number of years. Most of the legal precedents for funds of this type are found in common law.

¹⁷ For a detailed discussion of the context for endowment funds and foundations in Mali, see: "Key Factors in Establishing Foundations and Endowments in Mali", by Kunafoni Services for USAID/Mali, November 1993.

organizations are registered as associations.¹⁸ Although there is precedent for recognizing a foundation by decree, there is no law on foundations which might provide a legal basis for housing an endowment or trust fund. It may be possible to create an endowment or sinking fund by special decree. Alternatively, a fund could be created under the auspices of an existing organization by contractual agreement.

From an investment point of view, fund asset managers must analyze the risk of inflation and currency devaluation decreasing the real value of CFAF fund assets over time. In the case of an endowment or trust fund, it is also important to evaluate local opportunities for investment of fund assets. In 1995, Mali's inflation rate declined to 8% and it is predicted to fall even further over the next few years. Another CFAF devaluation is always possible; however, it seems unlikely at present in light of the positive economic performance of franc zone countries following the January 1994 devaluation. Therefore, the more problematical issue for fund managers would be the lack of secure, remunerative investment vehicles in Mali. The best interest rate offered by local commercial banks is between 4-5%. Since Mali's financial sector is not well developed, within the scope of this contract, FFD was unable to identify any other investment possibilities in Mali. The GRM would be reluctant to allow placement of fund assets leveraged through debt conversion off-shore, even if the income generated through such off-shore placement were invested in development projects in Mali.

The return on investment would be less of a problem in the case of a sinking fund since fund assets are disbursed during a set period of time. At this time in Mali, it may be more feasible to create a sinking fund than an endowment or trust fund. For example, typically **social funds** are sinking funds that finance small grassroots development projects, often through local NGOs.

B. Debt-for-Equity

1. Definition

In a typical debt-for-equity transaction, the debtor government redeems the debt in cash which the investor undertakes to invest in equity in a local company in the debtor country. In other words, the investor uses a debt conversion to finance an equity investment that it would like to undertake. The investment may consist of building a plant or acquiring an equity interest in a local company. Debt-for-equity investments are undertaken by private sector companies. Debtor countries have also used debt conversions in the context of the

¹⁸ All associations, including local and international NGOs, are currently regulated by a decree dating from March 1959, which defines an association as "a convention by which several persons put together their skills or their activities on a permanent basis with an aim other than the sharing of profits".

privatization of public enterprises, where the debtor government sells shares in public enterprises in exchange for cancellation of debt.

One of the main differences between debt-for-equity (including debt-for-privatization transactions) and other debt conversions is that private investors are likely to transfer funds out of the debtor country in the form of dividends and capital repatriation. The extent to which such remittances are permitted is usually determined by the debtor country. Obviously the debtor country needs to strike a balance that ensures that the debt conversion will be beneficial to the debtor country while not discouraging the investor. Debt-for-equity conversions are also likely to have a direct, positive impact on the output and often the level of exports of the debtor country.

2. Debt-for-Equity in the Context of Mali's Privatization Program

In the GRM's reform of the public enterprise sector during the period from 1988-1994, out of 66 enterprises of which the GRM was the sole or majority shareholder, 29 were liquidated, 15 were privatized, and several others were restructured. Debts between the GRM and liquidated or privatized public enterprises were offset, with remaining debts owed to the private sector settled through the issuance of Treasury securities, as described above in Section III. In consultation with the World Bank, the GRM expected to finalize and adopt an action plan by the end of December 1995 for the completion of the reform program by 1997.

Debt-for-equity conversions have been negotiated in the case of two public enterprises in Mali: the textile mill COMATEX and the sugar complex of Kala Supérieur SUKALA. In 1994, Covic, a Chinese state company, purchased 80% of the share capital of COMATEX (the GRM retained 20% ownership) in exchange for CFAF 1.2 billion in debt owed by Mali to the People's Republic of China (PRC). The Chinese debt was retired at 100% of its original face value. As part of the agreement, Covic agreed to invest CFAF 1 billion to refurbish the plant and purchase raw materials. The PRC provided a concessional rate loan which will be paid back by the new COMATEX over 5 years.

According to Feng Deming, the Director of COMATEX, the terms of the debt conversion were much less important than the fact that the Chinese were willing to recapitalize COMATEX, which had not been operating since 1990, with resulting losses of 1,400 jobs. Since there is a moratorium on repayment of Chinese debt, the resulting investment in Mali is more significant than the impact of debt reduction. Apparently, in the case of the privatization of the tannery TAMALI, the GRM accepted a cash offer by Ward Enterprises instead of a Chinese debt-for-equity offer.

The convention for the SUKALA privatization was signed in November 1995. A Chinese company acquired CFAF 5 billion in share capital representing 60% of the total shares in exchange for cancellation of debt owed by Mali to the PRC.

In August 1994, a new law on privatization was adopted which calls for transparency in the evaluation of companies to be privatized, competitive bidding, and deposit of privatization proceeds in a special treasury account. There are no provisions in the privatization law that would prohibit debt-for-equity conversions, although the law does establish preference for Malian over foreign investors with equal bids.

The COMATEX and SUKALA conversions appear to be special cases because of the new investment from the PRC. Although it appears that the GRM is not opposed to the principle of debt-for-equity conversions in the context of privatization, since the public enterprise reform program is expected to be completed in 1997, it is unlikely at this point that the GRM will actively encourage debt-for-equity conversions in the context of privatization.

3. Feasibility of Debt-for-Equity in Mali

As discussed above, debt-for-privatization may have limited applicability in Mali; however, the GRM has been willing to entertain debt-for-equity proposals even though the GRM has signaled its preference for debt-for-development transactions. Two for-profit investors recently proposed conversion of debt owed to ECGD for investments in the gold mining sector. Although ECGD apparently agreed to sell its claims on Mali to the investors, the GRM and the investors have been unable to agree on acceptable payment terms. In 1993, the GRM also agreed to a debt-for-equity conversion for a local gold mining concern. In lieu of cash payment, the investor received "quittances" from the Treasury which were then used to offset customs duties owed to the GRM.

C. Non-Cash Debt Conversions

In a **debt-for-assets** transaction debt is exchanged for title to or a right to enjoyment of assets belonging to the debtor. The transfer thus referred to is usually meant to comprise the transfer of title or a right to enjoyment of physical assets such as land, buildings or equipment. There is no limit to the types of assets that can be transferred pursuant to this type of debt conversion. Typical transactions, however, include debt for 1) leases, title or other rights to the use and enjoyment of land, property and equipment; 2) exploration and exploitation concessions in the mining, timber, tourism and oil sectors; and, 3) contracts for or title to commodities.

A **debt-for-offset** transaction generally involves the purchase of debt at a discount and its offset against a debt owed by the investor to the debtor government. Debt-for-offset transactions can be attractive to the government of the debtor country for a variety of reasons. Often the internal loans against which the debt is set off are credits under which the government does not expect to collect.

Debt-for-policy reform involves the purchase and cancellation or forgiveness of debt owed

by a debtor government in exchange for a change in policy by the debtor government. These transactions are generally structured to accomplish public, developmental goals. In attempting to structure a debt-for-policy reform transaction, it is important to carefully choose the debt to be cancelled and the policy to be changed. In addition, it is important to carefully calculate the amount of debt to be cancelled and to design the transaction structure in such a way that the debt's cancellation adequately compensates the debtor government for the policy change to be effected. Generally the amount of debt is calculated as some multiple of the "cost" to the government of changing the policy or regulation concerned.

In principle, debt-for-asset, debt-for-offset and debt-for-policy reform transactions may all be feasible in Mali. To the extent that they do not require budgetary expenditures in CFAF, such conversions may be even more attractive to the GRM than cash conversions. In the context of negotiations held in 1993, the Russian Federation accepted the principle of debt-for-commodity swaps. Algeria also raised the possibility of debt-for-livestock conversions. Since Mali has been successful in exporting agricultural commodities, it would only make sense for Mali to engage in commodity swaps in cases where there is a price advantage or the commodities exchanged are difficult to market. The GRM is currently considering a debt-for-offset transaction involving Algerian debt.

V. Government of Mali's Interest in and Ability to Undertake Debt Conversions

A. Government of Mali's Interest in Debt Conversion

As early as 1993, the Ministry of Finance and Commerce expressed interest in undertaking debt-for-development conversions. As described above, in 1993-1994, the GRM completed a debt-for-cash conversion in the gold mining sector. In 1994, the COMATEX debt-for-equity conversion was completed and the SUKALA conversion will be completed in 1996.

More recently, in a speech before the World Bank Conference on "Effective Financing of Environmentally Sustainable Development" in Washington, DC, on October 6, 1995, Prime Minister Ibrahim Boubacar Keita proposed conversion of external debt into investment funds for natural resources conservation.

The GRM has expressed a preference for debt-for-development conversions over conversions for commercial investment. In the social sector, the GRM's priorities for debt conversion reflect overall government priorities in the areas of agriculture/natural resources management, education and health. For example, in the education sector, the GRM has set the goal of raising primary school enrollment from 32% in 1994 to 50% by the year 2000.¹⁹ In meeting this goal, the GOM is likely to look favorably on debt conversion proposals that

¹⁹ "Mali: Policy Framework Paper (January 1995-December 1997)", World Bank, March 13, 1995, page 14.

expand access to primary education, such as teacher training or community school building projects.

B. Government of Mali's Ability to Undertake Debt Conversions

The Ministry of Finance and Commerce has indicated that debt conversion transactions will have to be funded within the scope of the national budget.²⁰ The 1996 budget, approved by the National Assembly on December 2, 1995, includes two lines for external debt servicing (interest and principal payments) for a total of CFAF 53.8 billion CFAF. For the current year's budget, debt conversions could be financed through savings in the debt servicing lines of the budget realized through new debt reschedulings/cancellations and through foreign exchange rates favorable to Mali. The Ministry of Finance and Commerce estimated that as much as CFAF 2 billion could be made available from such savings to finance debt conversions in 1996. For larger amounts, conversion proceeds would need to be programmed in the 1997 budget.

Because of the difficulty of negotiating debt conversions ahead of time, in accordance with the GRM's timetable for developing each year's budget, the GRM may wish to consider the possibility of creating a new line in the budget for debt conversion. Such a budget provision would demonstrate the GRM's commitment to funding debt conversion transactions and allow for more flexibility in the negotiation of specific transactions. In the case of Madagascar, for example, the National Assembly approves a provision for debt conversion each year. Based on the provision, the Ministry of Finance completes debt conversions until the provision is exhausted.

Although the GRM has made tremendous progress in the last few years in its economic performance, according to businessmen and NGOs interviewed by FFD, the GRM's performance with regard to meeting payment obligations on time remains uneven. It is likely to take more time for the GRM to establish a payment record that inspires the confidence of the private sector.

C. Administration of Debt Conversion Transactions

The GRM lead agency responsible for authorizing debt conversions is the Division of Public Debt in the Ministry of Finance and Commerce. To date, debt conversions have been effected on an ad hoc basis, and no formal government regulations exist with regard to debt

²⁰ The conditions of Mali's membership in the West African Economic and Monetary Union prohibit financing of fiscal deficits indefinitely through the Central Bank. As a result, any potential inflationary impact of debt conversion is limited in franc zone countries like Mali.

conversion.

The Division of Public Debt has indicated that the Ministry of Territorial Administration (*Ministère de l'Administration Territoriale et du Développement à la Base*) is likely to play a role in certifying the legitimacy of NGOs proposing debt-for-development conversions. Since the CADB (*Cellule d'appui au développement à la base*) already plays a role in reviewing NGOs' requests for customs exemptions, it would be suitable for the CADB to issue an opinion regarding debt conversion applications submitted by NGOs. NGOs are currently required to sign an "accord-cadre" with the GRM and must submit an annual report to the CADB.

The Ministry of Finance and Commerce may also wish to consult with other government ministries that have sectoral responsibility for a sector that will be impacted by a debt conversion transaction. For example, other countries have established an inter-ministerial committee to review debt conversion applications.

In administering debt conversion transactions, the Division of Public Debt will need to evaluate a number of policy options, including:

- o What organizations will be eligible to convert debt (eg. for profit versus not-for-profit)?
- o What projects will be eligible?
- o What type of debt will be eligible? Factors to consider include: the relative debt servicing cost of different categories of debt, the likelihood of further debt rescheduling and cancellation, and the creditors' willingness to sell at a steep discount.
- o What financial terms will be offered? Terms to be considered are: the redemption rate, the exchange rate, the disbursement schedule and form of payment, and the tax treatment of proceeds²¹.
- o How will the GRM monitor investor projects to ensure that debt conversion proceeds are used for authorized expenditures in Mali?

As the GRM gains more experience with debt conversion transactions, the GRM may wish to consider establishing internal regulations for debt conversion (possibly in the form of a "circulaire" of the Ministry of Finance and Commerce). Since the GRM would be likely to

²¹ Debt conversion proceeds are not normally taxed. In some countries, a minimal administrative fee may be charged to compensate the government for costs related to administration of transactions.

consider only a limited number of transactions each year, it may not be expedient for Mali to establish a formal debt conversion program. The issuance of regulations, however, would encourage investors to submit debt conversion applications by making the transaction procedure more standardized and transparent.

VI. Investor Interest in Debt Conversion

In presenting a "Workshop on Debt Conversion in Mali" in Bamako in November 1995, FFD found that the concept of debt conversion was new to most development organizations and commercial firms in Mali. Since the GRM indicated that it would like to encourage debt-for-development conversions rather than conversions in the for-profit sector, FFD interviewed only a few potential for-profit investors.

Several of the international NGOs and U.N. agencies interviewed by FFD following the November workshop have used debt conversion as a means of increasing the scope of their activities in other countries and are consequently familiar with the debt conversion mechanism. In spite of this institutional experience with debt conversion, most of the representatives of these organizations in Mali had no knowledge of or experience with debt conversion. As a first step, many of the NGOs expressed interest in receiving more information about debt conversion. A few organizations confirmed their interest in submitting debt conversion applications, and two organizations have already submitted debt conversion applications to the Ministry of Finance and Commerce.

One of the factors that determines the demand for debt conversion in any given country is the size of a development organization's per annum budget for that country and/or its capacity to raise new funds to invest in debt conversion transactions. In the case of Mali, the amount of available funds is relevant in determining the viability of effecting transactions since most bilateral creditors are reluctant to sell very small amounts of their outstanding claims. As a result, FFD estimates that it would not be feasible for an investor to purchase debt for a purchase price of less than \$500,000. This means that in a given time period (eg. 3-6 months), an NGO, or group of NGOs purchasing debt at the same time, would need to have at least \$500,000 in CFAF project expenditures.

FFD identified less than ten NGOs with budgets large enough to undertake debt conversions on their own. Because of the need for large sums of funding, it is unlikely that a local Malian NGO would have sufficient funds to undertake a debt conversion; however, all of the international NGOs interviewed by FFD work in collaboration with local NGOs who would more than likely benefit from the proceeds of a debt conversion.

Another important factor is the capacity of development organizations to absorb the funds generated through debt conversion. Most of the NGOs interviewed had no difficulty in identifying new projects or expanded activities for existing projects in the event that they were able to generate increased funding through debt conversion. Some NGOs expressed

interest in expanding the geographical scope of their projects - for example through the building of community schools or wells.

Some NGOs expressed doubts regarding the time and effort it would take to receive donor approval for use of donor funds in debt conversion transactions. A few NGOs stated that they would not be interested in investing donor funds in debt conversion for this reason, but that they would be interested in considering debt conversion transactions using their own unrestricted funding.

Without exception, the NGOs sought assurances regarding the GRM's ability to perform under a debt conversion agreement. The NGOs would not be willing to invest in debt conversion transactions without immediate payment (prior to the NGO's purchase of debt) or a payment mechanism that would guarantee payment of CFAF by the GRM (eg. an escrow arrangement or payment in bonds, as discussed above). A few NGOs also expressed concern regarding the possibility of excessive GRM monitoring of projects implemented through debt conversion, although they admitted that to date the GRM has not had the capacity to effectively monitor NGO activities.

VII. Conclusions

Based on research and interviews conducted in Mali and discussions with Mali's creditors during the period from October to December 1995, FFD has concluded that debt conversion transactions are feasible in Mali on an ad hoc basis. Depending on government and investor interest, several types of conversions may be possible including debt-for-development, debt-for-equity, debt-for-assets, debt-for-offset and debt-for-policy reform.

FFD's conclusions are summarized below:

Mali's Debt Profile

- o Limited amounts and categories of external debt may be available and eligible for conversion purposes, as follows:

Paris Club: After Mali concludes a new agreement with the Paris Club, debt owed to **France, the Netherlands and the United Kingdom** may be available and eligible for conversion.

Non-Paris Club: The largest category of non-Paris Club debt that would be suitable for conversion is owed to **Russia**; however, until a restructuring agreement is signed between Mali and Russia, this debt is not likely to be eligible for conversion. Other non-Paris Club creditors, such as **Algeria, China, France, and the Ivory Coast** may be willing to consider debt sales for conversion purposes.

- o Debt owed to multilateral and internal creditors is not available for conversion purposes.

Debt Conversion Transaction Structures

- o Debt-for-development, debt-for-equity, debt-for-assets, debt-for-offset and debt-for-policy reform conversions may be possible in Mali.
- o Debt-for-development conversions, in the agriculture/natural resources management, education and health sectors, are preferred by the GRM over for-profit conversions.
- o Because of the lack of remunerative investments in Mali, debt conversion in the context of leveraging funds for a sinking fund would be more attractive than conversions for the creation of an endowment or trust fund.

The Government of Mali's Interest in and Ability to Undertake Debt Conversions

- o The GRM has expressed strong interest in concluding debt conversion transactions, but to date has limited experience in undertaking transactions.
- o The GRM currently has limited funds available for debt conversion, but would be willing to consider programming additional funds in the national budget based on investor demand.
- o Although no formal debt conversion program exists, the GRM is willing to consider debt conversion transactions on an ad hoc basis.

Investor Interest in Debt Conversion

- o Both for-profit and not-for-profit investors have expressed interest in considering debt conversion transactions in Mali. To date, three debt-for-equity transactions have been completed. Two not-for-profit organizations have submitted debt conversion applications to the GRM.
- o Because of investors' lack of confidence in the GRM's ability to perform under a debt conversion agreement, investors may not be willing to engage in debt conversion transactions in Mali without agreement on a payment mechanism, such as an escrow account, bonds or a third party guarantee, that ensures timely payment by the GRM.

VIII. Appendices

- A. External Debt of Mali: 1990-1994
Dette Extérieure du Mali: 1990-1994
- B. External Debt of Mali: Outstandings as of December 31, 1994
Dette Extérieure du Mali: Encours au 31 décembre 1994
- C. Mali's Debt Indicators
- D. Law No. 94-030, Regarding Creation of and Authorizing Issuance of Government Securities, July 20, 1994.
Loi No. 94-030, Portant Création et Autorisant l'Emission des Titres d'Emprunt d'Etat, le 20 juillet 1994.
- E. Transaction Flow Charts

Appendix A

External Debt of Mali: 1990-1994

Dette Extérieure du Mali: 1990-1994

DETTE EXTERIEURE DU MALI : 1990-1994 :

(EN MILLIARDS DE F.CFA)

	1990	1991	1992	1993	1994
A) ENCOURS EN FIN DE PERIODE					
Dettes Publiques Totales					
Dettes Extérieures	673,8	700,9	730,3	773,9	1576,6
Dettes à moyen et à long terme	673,8	700,9	730,3	773,9	1576,6
- Créanciers Officiels	671,6	698,4	730,0	773,7	1576,6
. Multilatéraux	272,1	291,1	305,6	339,7	753,8
. Bilatéraux	399,5	407,3	424,4	434,0	822,8
- Créanciers Privés	2,2	2,5	0,3	0,2	0,0
Dettes à court terme	0,0	0,0	0,0	0,0	0,0
Stock d'arrivées	0,0	1,1	4,8	9,8	0,0
B) DETTE EXTERIEURE A MOYEN ET LONG TERME					
<u>ENCOURS</u>					
Encours	673,8	700,9	730,3	773,9	1576,6
Nouveaux tirages	60,5	43,5	38,2	24,1	70,4
Amortissements dus	34,6	33,7	37,0	37,9	72,3
Allègements de dettes :	22,0	22,9	25,1	24,7	43,2
. Rééchelonnements	22,0	22,9	25,1	24,7	42,2
. Remises de dette	0,0	0,0	0,0	0,0	0,8
Variation des arrières/principal	0,0	0,9	2,6	3,7	-13,6
service réglé : principal	12,6	10,8	8,4	6,6	29,1
Flux Nets : principal	-	-	-	-	-
Intérêts dus :	13,4	10,3	10,9	9,5	21,3
. Rééchelonnements	5,5	1,9	3,3	2,8	7,2

Remises de dettes	0,0	0,0	0,0	0,0	1,5
Variation des arriérés/Intérêts	0,0	0,2	1,1	1,3	-6,2
Service réglé : intérêts	7,9	8,2	6,3	4,1	12,4
Flux nets globaux	-	-	-	-	-

N.B : 1) BORD, BCEAO non prises en compte.

2) Les éléments pour 1995 et 1996 seront dégagés respectivement après le 31 Décembre 1995 et le 31 Décembre 1996.

LA DIRECTION GENERALE DE LA DETTE PUBLIQUE



Appendix B

External Debt of Mali: Outstandings as of December 31, 1994
Dette Extérieure du Mali: Encours au 31 décembre 1994

MINISTERE DES FINANCES ET DU COMMERCE

 DIRECTION GENERALE DE LA DETTE PUBLIQUE

REPUBLIQUE DU MALI
 UN PEUPLE - UN BUT - UNE FOI

DETTE EXTERIEURE DU MALI : ENCOURS AU 31 DECEMBRE 1994 :
 (EN MILLIARDS DE F.CFA).

CREANCIERS :

ENCOURS AU 31/12/1994 :

1. <u>BILATERAUX :</u>	822,8	(52,9 %)
1-1. <u>CLUB DE PARIS :</u>	306,8	
1-1-1. <u>FRANCE</u>	282,6	
C.F.D. (Caisse Française de Dével.) et		
Banque de France	120,9	
TRESOR FRANCAIS	1,5	
TRESOR FRANCAIS (Compte d'Opérat.)	150,5	
COFACE	9,7	
1-1-2. <u>ITALIE</u>	8,2	
MEDIOCREDITO	7,4	
SACE	0,8	
1-1-3. <u>PAYS-BAS</u>	3,2	
N.C.M. (Assurance de crédit)	3,2	
1-1-4. <u>SUISSE</u>	-	
SOCIETE DE BANQUE SUISSE	-	
1-1-5. <u>ROYAUME-UNI</u>	12,8	
BRITISH AEROSPACE	-	
E.C.G.D. (Assurance de crédit)	12,8	
1-1-6. <u>U.S.A.</u>	0,02	
US-AID	0,02	
TOTAL : (1-1.)	306,8	(19,5 %)

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1-2. AUTRES BILATERAUX : 516,0

1-2-1. FONDS D'ABU DHABI	16,7
1-2-2. ALGERIE	13,6
1-2-3. BULGARIE	-
1-2-4. CHINE	68,7
1-2-5. COTE D'IVOIRE	3,9
1-2-6. D.E.G. (Deutsche Investitions-und Entwicklungsgesellschaft)	-
1-2-7. KRUPP	-
1-2-8. GHANA	-
1-2-9. EGYPTE	10,7
1-2-10. JAPON	25,1
1-2-11. LIBYE	4,2
1-2-12. SIFIDA	-
1-2-13. FONDS SAOUDIEN	52,6
1-2-14. RUSSIE	296,7
1-2-15. UNEFICO	-
1-2-16. U.T.H.	-
1-2-17. FONDS KOWEITIEN	12,0
1-2-18. IRAK	11,8

TOTAL (1-2.)

516,0

(32,7%)

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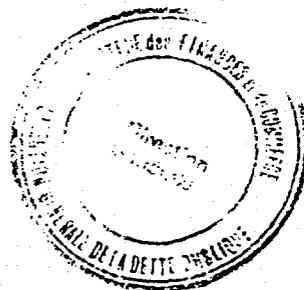
2. <u>MULTILATERAUX</u> :	754,0	(47,8 %)
2-1. B.A.D. (Banque Africaine de Développt.)	7,9	
2-2. F.A.D. (Fonds Africain de Développt.)	162,8	
2-3. F.A.S.A.A. (Fonds Arabe Spécial d'Aide à l'Afrique)	2,5	
2-4. B.A.D.E.A. (Banque Arabe pour le Dévelop- pement Economique en Afrique)	11,7	
2-5. B.E.I. (Banque Européenne d'Investissement)	16,2	
2-6. FOSIDEC	1,6	
2-7. F.M.I.	57,4	
2-8. CFE/IDA	4,8	
2-9. I.D.A.	418,7	
2-10. B.I.D.	21,4	
2-11. FONDS SPECIAL O.P.E.P.	11,2	
2-12. F.E.D.	15,2	
2-13. FONDS C.E.D.E.A.O.	1,5	
2-14. B.O.A.D.	0,2	
2-15. F.I.D.A.	20,9	
<u>TOTAL</u> : (2)	754,0	
<u>TOTAL GENERAL</u> : (1-1. + 1-2. + 2)	1.576,8	

(1) B.C.E.A.O. exclue..... 49,6.

N.B. : L'annulation de dette (France : 120,9 et Italie : 7,4) n'est pas déduite ici.

Bamako, le 22 Février 1995

DIRECTION GENERALE DE LA DETTE PUBLIQUE :

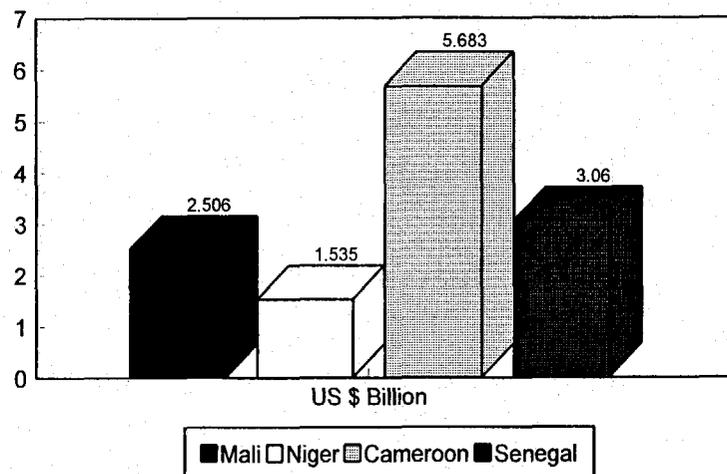


Appendix C

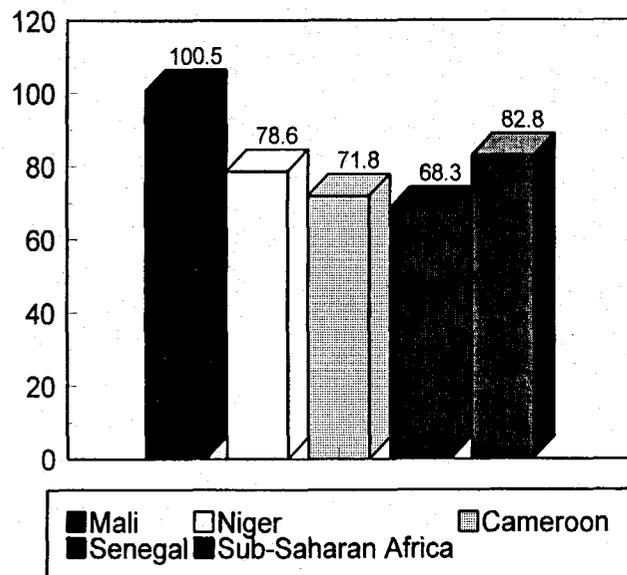
Mali's Debt Indicators

Mali's Debt Indicators in Comparison to Other CFA Countries and Sub-Saharan Africa

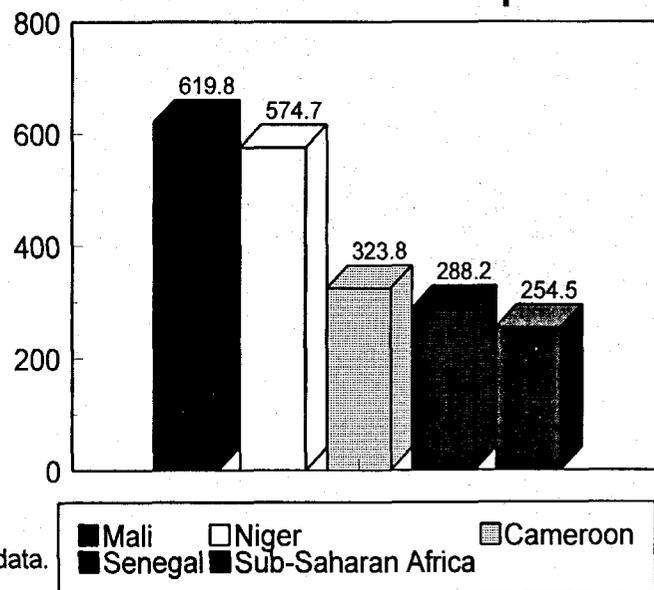
Total Long-Term Debt



Total Debt / GNP



Total Debt / Exports



Source: World Bank, 1993 data.

Appendix D

Law No. 94-030, Regarding Creation and Authorizing Issuance of Government Securities, July 20, 1994.

Loi No. 94-030, Portant Création et Autorisant l'Emission des Titres d'Emprunt d'Etat, le 20 juillet 1994.

Mme D.
PRESIDENCE DE LA REPUBLIQUE

REPUBLIQUE DU MALI
UN PEUPLE - UN BUT - UNE FOI

/_OI\ N° 94-030 /

PORTANT CREATION ET AUTORISANT L'EMISSION
DES TITRES D'EMPRUNT D'ETAT.

L'Assemblée Nationale a délibéré et adopté en sa séance du 30 juin 1994 ;

Le Président de la République promulgue la loi dont la teneur suit :

ARTICLE 1ER : Il est créé en République du Mali des titres d'emprunt d'Etat destinés à couvrir les besoins de Trésorerie de l'Etat.

ARTICLE 2 : Les titres d'emprunt d'Etat sont regroupés en deux catégories :

- les bons du Trésor, titres représentatifs d'emprunt à court terme, 0 à 2 ans, émis par l'Etat ;
- les obligations du Trésor, titres représentatifs d'un emprunt à moyen ou long terme plus de 2 ans, émis par l'Etat.

ARTICLE 3 : Le Ministre chargé des Finances est autorisé à émettre ces titres dans la limite des plafonds d'endettement fixés annuellement par la Loi des Finances ;

Ces titres peuvent être :

- . nominatifs ou au porteur ;
- . sur formule ou en compte courant.

ARTICLE 4 : Les titres d'emprunt d'Etat peuvent être souscrits par les personnes physiques ou morales, résidentes ou non résidentes.

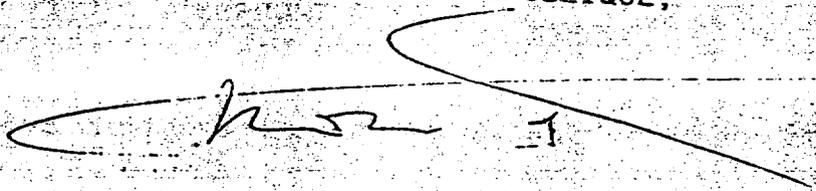
ARTICLE 5 : Les conditions d'émissions, la forme, les modalités de souscription et de cession, les taux d'intérêt ainsi que le régime fiscal des titres sont fixés par décret pris en Conseil des Ministres.

ARTICLE 6 : Dans le cadre de la gestion de la dette intérieure et par dérogation à l'article 3, le Gouvernement est autorisé à procéder à la titrisation des dettes déjà existantes par émission d'obligations du Trésor.

ARTICLE 7 : La présente loi sera publiée au Journal Officiel.

KOULOUBA, LE 20 JUIL. 1994.

LE PRESIDENT DE LA REPUBLIQUE,

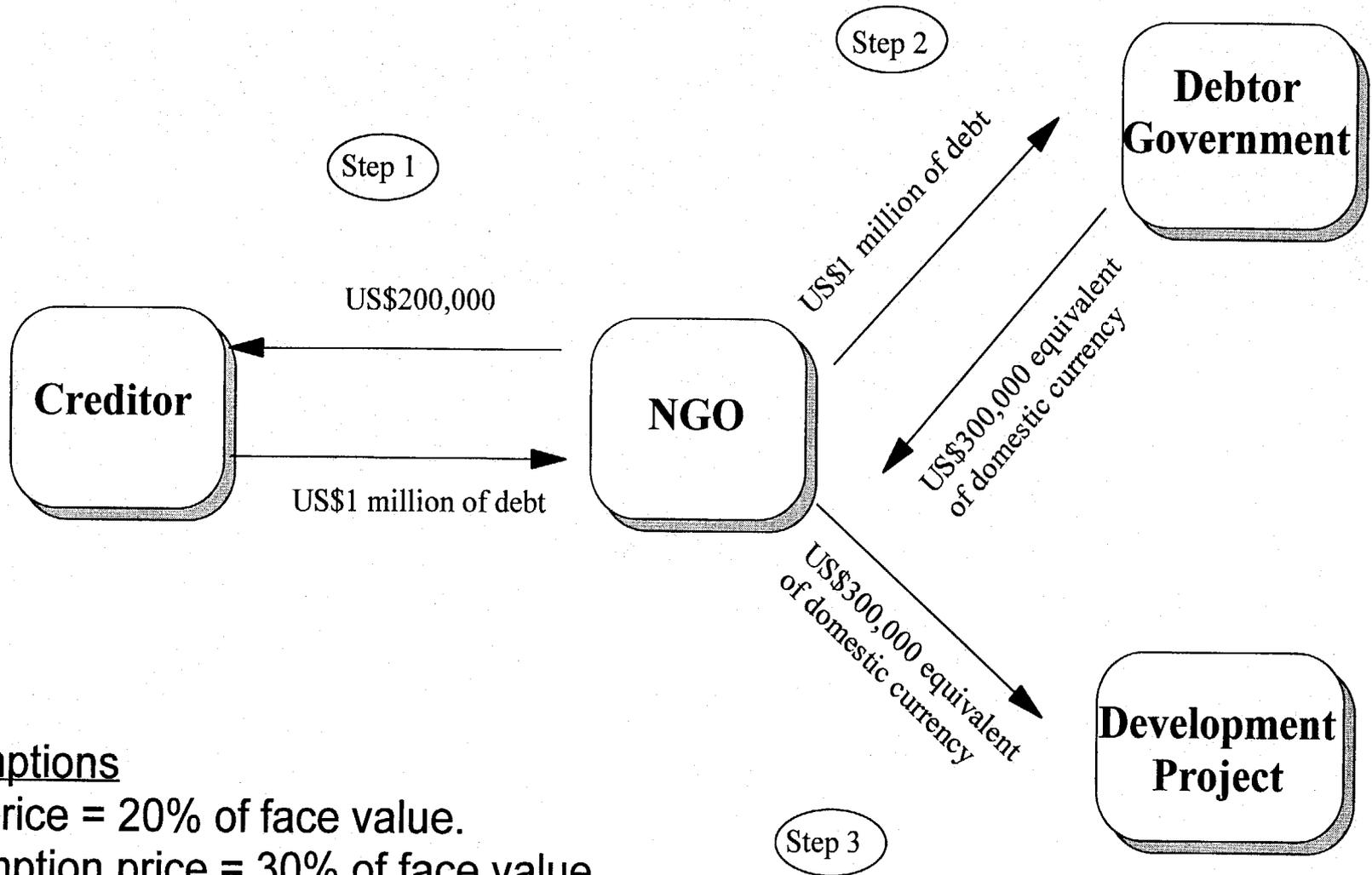


ALPHA OUMAR KONARE

Appendix E

Transaction Flow Charts

Typical Debt-for-Development Conversion Structure



Assumptions

Debt price = 20% of face value.

Redemption price = 30% of face value.

Typical Debt-for-Equity Conversion Structure

